Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkingroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

27 April 2018

Sir Michael Cullen
Chair
Tax Working Group
Wellington

secretariat@taxworkinggroup.govt.nz

Dear Sir Michael

The Families Commission, operating as the Social Policy Evaluation and Research Unit (Superu), welcomes your invitation (dated 21 March 2018) to provide a submission to the Tax Working Group (TWG).

The Families Commission began operating in 2004 and was reconfigured as Superu in 2014. In both forms, the organisation has done a significant amount of research on what works to improve outcomes for families and whānau.

It seems odd to us that the role of families and whānau in developing and maintaining social and cultural capital is overlooked in both the terms of reference for the TWG and the Submissions Background Paper. Also, scant attention is paid to the interface of families and whānau with the economy and the tax system. Yet it is this interface (and the interface with the system that transfers wealth via the benefits system) that makes it either easier or more difficult to combine family or whānau responsibilities – such as raising children or caring for the sick or elderly – with participation in the economy.

As the background paper states (p20) it makes little sense to review taxation in isolation from transfers: "When thinking about the distribution of taxes, equity and fairness, it is best to think of the tax and transfer system overall, rather than individual taxes in isolation".

Unfortunately, the interaction of the tax system with the transfer system is outside the scope of this review. We note that the TWG will be able to recommend further reviews be undertaken on specific issues which the group considers it has not been able to explore sufficiently, or that were excluded from its terms for reference but which could benefit from being considered in the context of its recommendations. We believe that the tax/transfer interface is one of those issues.

Recommendations

1. That the contribution of families and whānau to the development of social and cultural capital (core elements of Treasury's Living Standards Framework) be explicitly recognised and supported by the TWG.

2. That the TWG recommend a full review of the impacts of the benefits/transfers interface, with a view to enhancing the resilience of families and whānau and boosting productivity.

What families do

Healthy individuals in healthy families are at the heart of a healthy society. Families give their members a sense of identity and belonging; they care, nurture and support their members; they provide socialisation and guidance; and they manage the family's emotional and material resources. Being part of a family is the most significant socialising influence in a person's early life. Given that childhood disadvantage strongly predicts negative adult life outcomes, a high level of family wellbeing is important both for individuals and for New Zealand.

In terms of the Treasury's Living Standards Framework, families build social capital (such as trust, cultural achievements and community connections) and human capital (such as skills and knowledge).

The stock of human capital is significantly affected by the ageing of the population, which is in part due to declining birth rates. The causes of this decline are complex, but it is highly likely that they are related to challenges associated with simultaneously raising children and gaining income through employment. The creation of social and human capital is also jeopardised by stresses that arise from long hours, low incomes and precarious jobs.

Questions of work-life balance and access to affordable housing are of critical importance, and both of these are affected by the systems of taxation and transfer. High effective marginal tax rates and high house prices create poverty traps which need to be sprung in order to reduce inequality and strengthen family resilience, which will then feed into the building of all four 'capitals'.

Unfortunately as things stand, while the TWG's background paper draws links to Treasury's Living Standards Framework, it tends to downplay the importance of human and social capital. By way of contrast, natural capital does not suffer the same fate and the TWG has been asked to consider what role the taxation system can play in delivering positive environmental and ecological outcomes, especially over the long term. A similar injunction should apply to outcomes for families and whānau.

Family form also interacts with systems of taxation and transfer and has impacts on wellbeing. The classical 'nuclear family' upon which much social policy has been based is but one among a multitude of family and whānau types that have developed. Income tax is still assessed on an individual basis but eligibility for many components of social assistance, and the amount a person is entitled to, is based on relationship status. The difficulties associated with defining 'what is a family' (or whānau) make relationship-based criteria highly problematic.

Superu has shown that one-parent families with younger children face additional stresses in comparison to two-parent families, yet there are elements of the taxation/transfer systems that disincentivise the formation of new relationships or 'punish' those who are in relationships already. The answer may be to individualise entitlements, thus enabling people to freely form whatever family and whānau relationships they wish (and to be better equipped to, for example, ride out loss of income and/or up-skill during periods of absence from the workforce).

We have commissioned some work to examine whether individualisation of entitlements could better align the welfare and social assistance system to how New Zealanders live and work in the 21st century, without the adequacy problems or extreme cost associated with a Universal Basic Income. This work will be available for the TWG to consider in June 2018.

Yours sincerely

[1]

Dr Malcolm Menzies
Chief Executive